PENN WEST

PENN WEST Petroleum Ltd.

1996 Annual Report

Corporate Profile

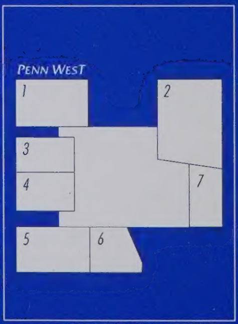
Penn West Petroleum Ltd. is a rapidly growing intermediate Canadian oil and natural gas producer with exploration, development and operating activities focused in western Canada. Penn West exited 1996 with production of 11,800 bbls/day of oil and liquids and 137 mmcf/day of natural gas.

Using its large base of undeveloped land acquired over the past four years and focused on four Core Areas of activity, Penn West is engaged in a program of full-cycle exploration designed to generate cost-effective growth in production, reserves, cash flow and net income that is sustainable over the long term.

Penn West is a publicly traded company listed on The Toronto Stock Exchange, under the trading symbol "PWT." As at March 27, 1997, there were 39,655,831 common shares issued and outstanding. Since 1995, Penn West has been part of the TSE 300 Composite Index.

Annual General Meeting

The annual general meeting of the shareholders of Penn West Petroleum Ltd. will be held in the Mayfair Room, Westin Hotel, Calgary, Alberta, on Wednesday, May 14, 1997 at 2:30 p.m. Shareholders who are unable to attend are urged to complete, sign and mail their proxies to ensure their common shares will be voted at the meeting.



1 Oil rig near Loverna, Saskatchewan

2 Construction of heavy oil battery, Esther property

3 Construction of heavy oil battery, Esther property

4 Water tank, Minnehik-Buck Lake natural gas plant

5 Minnehik-Buck Lake natural gas plant

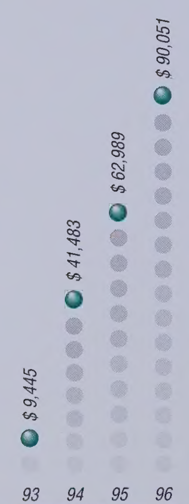
6 Geophones, Plains Area seismic project

7 Service rig near Loverna, Saskatchewan

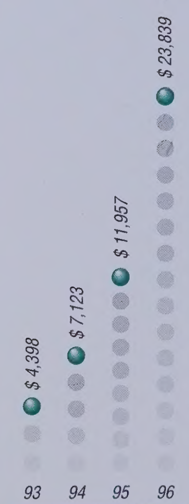
Contents

Corporate Highlights

	1996	1995	% change
FINANCIAL:			
($000s except per share amounts)			
Gross revenues	173,773	129,068	35
Cash flow	90,051	62,989	43
Basic per share	2.51	1.96	28
Fully diluted per share	2.43	1.90	28
Net income	23,839	11,957	99
Per share	0.66	0.37	78
Capital expenditures, net	101,848	131,949	(23)
Long-term debt	134,880	159,388	(15)
Shareholders' equity	231,977	159,315	46
Total assets	464,705	379,919	22
COMMON SHARES OUTSTANDING:			
(000s)			
Weighted average			
Basic	35,880	32,227	11
Fully diluted	39,201	35,237	11
End of year			
Basic	39,283	34,831	13
Fully diluted	42,726	38,138	12
OPERATIONS:			
Production			
Oil and liquids (bbls/day)	11,483	10,577	9
Natural gas (mmcf/day)	129.0	97.4	32
Proven and probable reserves			
Oil and liquids (mmbbls)	40.4	33.6	20
Natural gas (bcf)	515.0	481.5	7
Wells drilled			
Gross	121	66	83
Net	101.8	50.1	103
Undeveloped land (000s of acres)			
Gross	1,535	1,571	(2)
Net	1,318	1,206	9
Average working interest (%)	86	77	n/a



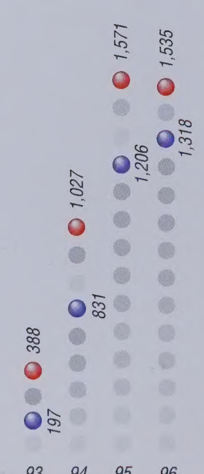
Cash Flow ($000s)



Net Income ($000s)

Drilling Activity

Gross Wells
Net Wells

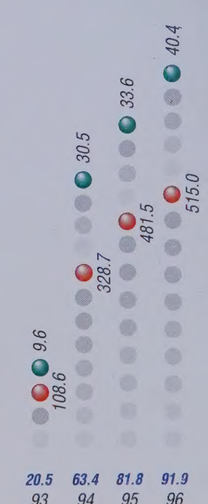


Undeveloped Land
(000s of acres)

Gross
Net

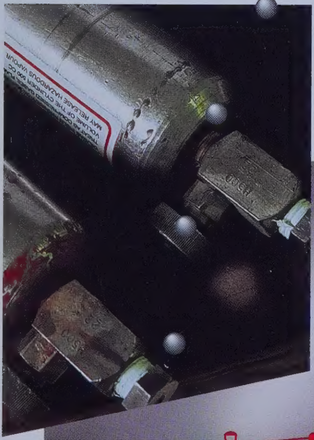
Production

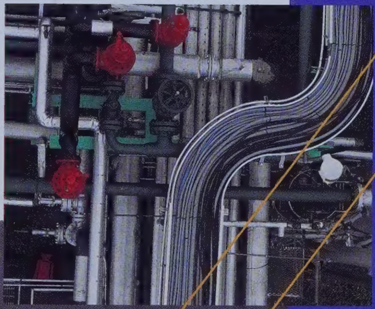
Oil and Liquids (bbls/day)
Natural Gas (mmcf/day)
(Totals in boe/day)



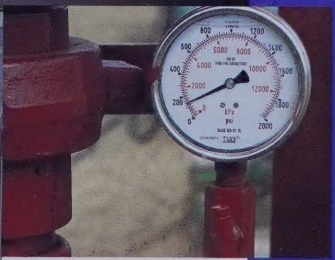
Reserves
Proven and Probable

Oil and Liquids (mmbbls)
Natural Gas (bcf)
(Totals in mmboe)





LETTER TO THE SHAREHOLDERS



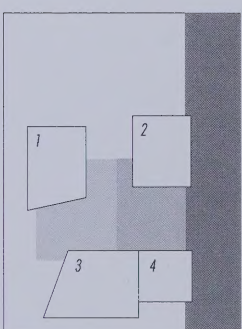
Letter to the Shareholders

During 1996 Penn West successfully moved into a program of full-cycle exploration on its asset base of undeveloped land and underexploited projects. We achieved record financial results and built production volumes, reserves, cash flow and net income.

Growing production, exploration success, double-digit increases in cash flow and net income, significant reserve additions—these were the themes that, we are very pleased to report, characterized a highly successful 1996 for Penn West. Penn West attained record financial and operating results last year, including almost doubling 1996 net income to $23.8 million. This bottom-line result represents the strongest endorsement of the Company's long-term strategy.

The year was an extremely active one in terms of oil and natural gas drilling and the full range of exploration and development activities. Penn West increased production and reserves significantly, maintained low finding costs and achieved large increases in cash flow and net income.

Sustainable Growth



1 *Oil and gas samples, Esther property*

2 *Valves and electrical lines, Minnehik-Buck Lake natural gas plant*

3 *Minnehik-Buck Lake natural gas plant*

4 *Pressure gauge, Esther property*

Most importantly, 1996 was a crucial year for the implementation of Penn West's long-term strategy to achieve sustainable growth. From 1993 to the middle of 1995, Penn West grew spectacularly through acquisitions of underexploited assets. These acquisitions were made with a view to implementing a long-term program of full-cycle exploration. The acquired assets were consolidated into cohesive groups of properties that provided a base of semi-developed and undeveloped land offering a launching pad for exploitation, development and exploration.

Penn West structured its large inventory of undeveloped land to create a broad spectrum of properties positioned at various stages of development. As proven producing properties mature, other properties are brought into full production through development drilling. Meanwhile, to ensure continuing growth, undeveloped properties are undergoing initial exploration and new, undeveloped lands are being acquired.

This strategy, conceptually straightforward, has far-reaching operational and financial consequences. It creates what we like to think of as a self-sustaining "machine" that finances exploration and development out of cash flow, while generating new reserves and increased production. This machine creates accelerating cash flow and

maintains a foundation, not simply for a one-time, flash-in-the-pan exploration success, but for consistent growth in production, reserves and cash flow, that is sustainable and profitable over the long term.

We are very pleased to report that in 1996 Penn West confirmed the validity of our strategy to create sustainable growth and harvested the first significant returns.

A Spectrum of Opportunities

To implement its strategy, Penn West has focused its exploration and development activities on four Core Areas in western Canada. Production is balanced between oil and natural gas, allowing Penn West to exploit opportunities in both sectors and helping reduce our exposure to fluctuations in commodities prices. The Company maintains a high working interest, operatorship and control of infrastructure in each of our Core Areas. This provides a strong platform for developing our properties fully and realizing maximum returns for our shareholders.

Four key properties illustrate our strategy for sustainable growth and demonstrate its successful implementation:

- At Boyer in northwest Alberta, land accumulated for low risk, inexpensive, shallow depth natural gas development was producing 22 mmcf/day of natural gas at year end 1996, up from 5 mmcf/day on acquisition in 1993. Reserves now stand at 80 bcf. Drilling of 35 additional wells in the winter of 1997 will raise production to 35 mmcf/day;
- At Minnehik-Buck Lake in central Alberta, land, production and infrastructure acquired in 1995 have been consolidated, modernized and redeveloped. Last year, the Minnehik-Buck Lake natural gas plant was refurbished and expanded to a capacity of 130 mmcf/day of natural gas. This year's drilling program of up to 20 wells will add oil and liquids production from shallow to medium-depth reservoirs, including the Belly River, Cardium, Glauconite, Basal Quartz, and Banff;
- In our Plains Area, several large, 1 million-barrel-plus oil discoveries made over the past two years are being developed sequentially. The Esther property served as the template, providing Penn West's explorationists with detailed knowledge of the area's characteristics. Through an aggressive exploration and development program, that started with extensive 2-D and 3-D seismic and will involve drilling more than 100 exploration and development wells in 1997, Penn West is now preparing to replicate its success at Esther in other key area properties at Dina Marsden, Hoosier and Wildmere. Penn West will utilize these projects to fuel growth in oil volumes in 1997; and

- Penn West's success at Wildboy in northeast British Columbia proves our ability to perform exploration in this riskiest, but potentially most lucrative element of oil and natural gas development. By the end of 1996, Penn West had assembled 85,000 net acres of undeveloped land at Wildboy, and five exploratory wells had delineated 50 bcf of natural gas reserves in the Devonian Jean Marie formation. Five exploratory wells drilled in winter 1997 have extended the pool considerably and added significant new reserves. Construction of a gathering system and natural gas processing facility will allow Penn West to begin exploiting this find with initial production of 20–25 mmcf/day of natural gas in April 1998.

Looking to the future, Penn West in 1996 added significantly to its already large base of undeveloped land. The Company acquired more than 100,000 net acres during the year, bringing its total inventory of undeveloped land to 1.3 million net acres. This undeveloped land will help ensure that our machine of sustainable growth remains fuelled.

Strong Results

Penn West's strategy is clearly proving itself. Penn West achieved new operating and financial records in 1996. Average daily production reached 24,400 boe/day, balanced between 129 mmcf/day of natural gas and 11,500 bbls/day of oil and liquids.

Contrast this with average production of 12,700 boe/day in 1994 and 20,400 boe/day in 1995. Penn West exited 1996 with production of 25,500 boe/day.

This growth has not come at the expense of an eroding reserve base or ballooning finding costs; quite the opposite. A hallmark of Penn West's business philosophy has been our determination to meet or exceed our key financial and operating forecasts. It is a particular point of pride for Penn West that we have done so in each of the past four years.

In 1996, the Company added proven plus probable reserves totalling 19.1 million boe, 220 percent of the year's production. Reserves now stand at 515 bcf of natural gas, 10.3 years' worth of production, and 40.4 million bbls of oil and liquids, equal to 9.4 years' production at current rates.

We are determined to maintain low finding costs (defined as the all-inclusive cost of identifying, drilling and bringing on production one new barrel of oil equivalent). Unless an oil and natural gas company can maintain finding costs that are well below the netback received for each unit of oil and natural gas sold, its growth will stall.

In 1996, despite having the challenge of obtaining most of our new reserves through the drill bit, Penn West was able to achieve finding costs for new reserves of $5.33 per proven and probable barrel of oil equivalent added. This compares to an average netback in 1996 of $11.59 per boe. This achievement is a direct result of the effort and performance of our staff and management in successfully meeting the challenges of full-cycle exploration.

Thanks to Penn West's ability to maintain a tight rein on general and administrative costs, the exploration team's ability to add production and reserves at low finding and development costs, and favourable commodities prices, Penn West's cash flow and net income in 1996 grew even more rapidly than our production.

Cash flow in 1996 reached $90 million, an increase of 43 percent over 1995. More importantly, cash flow per share grew by 28 percent, from $1.96 in 1995 to $2.51 in 1996. Net income nearly doubled from 1995, reaching $23.8 million. And again importantly, on a per share basis, net income increased by 78 percent, from $0.37 in 1995 to $0.66 in 1996.

Part of this strong performance is due to the strength shown by oil prices during most of 1996 as well as the sharp rise in natural gas prices that commenced in the autumn.

When Penn West financed two large corporate acquisitions of 1994 and 1995 primarily through bank debt, in order to avoid dilution of shareholders' equity, we pledged that we would grow our way out of debt by rapidly exploiting our new assets. We are pleased to report that Penn West is doing so. Penn West exited 1996 with net debt of $132 million. This was down from $168 million at year end 1995, and represented a reduction of the debt to current year cash flow ratio from 2.66:1 at year end 1995 to 1.47:1 at year end 1996. The ratio is forecast to decline further this year, falling to 1.25:1 by the end of 1997.

In 1996, the financial markets also began to recognize Penn West's performance. The Company's share price more than doubled from $7 over the course of the year. Penn West's market capitalization now stands in excess of $600 million, making

Penn West not only a more valuable but a far more liquid stock. Penn West is a recommended "buy" among numerous analysts, who believe Penn West's performance and potential are still not fully reflected in our share price.

Looking Ahead

In the coming year Penn West will continue to focus on adding reserves and production in a cost effective manner through the drill bit, while continuing to remain open to opportunities for acquisition of assets at favourable prices.

Under our 1997 capital investment program, Penn West is planning to spend $115 million on land, exploration, development and facilities. This program will be funded almost exclusively by cash flow. Penn West will drill a total of 200 wells (175 net wells). This represents an increase of 65 percent from the 121 wells (101.8 net) drilled in 1996.

Using our accelerating cash flow to continue expanding our program of full-cycle development, Penn West will increase average daily production to 29,000 boe/day for 1997. We expect to exit the year with production of 32,000 boe/day.

Penn West is firmly committed not only to continually achieving growth in its key operating benchmarks—reserves and production—but to transforming these results into continuous improvements in the benchmarks that most count to you, the shareholder—cash flow and net income on a per share basis.

Based on forecast wellhead prices of Cdn$23.00/bbl of oil and Cdn$1.70/mcf of natural gas, our forecast production levels will provide Penn West with 1997 cash flow of $110 million, $2.80 per share, and net income of $28 million, or $0.72 per share. As we continue to implement our strategy of sustainable growth, we look forward to the coming years with tremendous enthusiasm about Penn West's prospects for continued operating and financial success.

We wish to thank the Board of Directors for their guidance and counsel, Penn West's team of managers and employees for their hard work and dedication, and Penn West's shareholders for their confidence in their Company's prospects.

On behalf of the Board of Directors,

N. Murray Edwards
Chairman

William E. Andrew
President and Chief Operating Officer

March 14, 1997

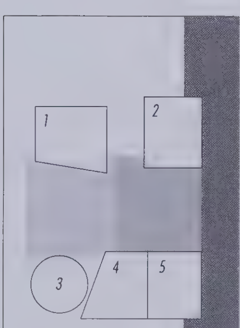
EXPLORATION, DEVELOPMENT AND OPERATIONS

Exploration, Development and Operations

Using the broad range of opportunities present on its large base of undeveloped land, [illegible] 1996 [illegible] of exploitation, development and exploration projects, significantly increasing daily production of oil and natural gas and building reserves to ensure sustainable growth.

During 1996 Penn West used its asset base of undeveloped land and underexploited projects to move more fully into our long-term program of full-cycle exploration and development. We successfully raised production volumes, reserves, cash flow and earnings to new record levels, while achieving finding costs of $5.19/boe on a proven basis.

Our focus in 1996 was not only on achieving our targets, but also on ensuring that our growth is sustainable over the long term. With that in mind, Penn West added new exploratory land and acquired seismic data on an array of new prospects.



1 *Service rig near Loverna, Saskatchewan*

2 *Rotalift wellhead installation, Esther property*

3 *Sour gas lines, Minnehik-Buck Lake natural gas plant*

4 *Esther heavy oil battery under construction*

5 *Bucketwheel digging pipeline trench, Esther*

Penn West's main operating principles to achieve sustainable growth are:

- Focus our activities on our four Core Areas in western Canada;
- Assemble large landholdings through a combination of Crown purchases, property swaps and strategic acquisitions;
- Reduce commodity price risk by maintaining a balance of oil and natural gas production;
- Attain a high working interest (now an average of 86 percent) in all key properties and acquire operatorship, thereby allowing the Company to control the nature and pace of development and reduce costs; and
- Maintain a mix of properties ranging from low-risk development to raw exploration, ensuring both a high level of current production and cash flow and sound prospects for continuing, long-term growth.

These principles served us well in 1996 and form our benchmarks for 1997 and beyond.

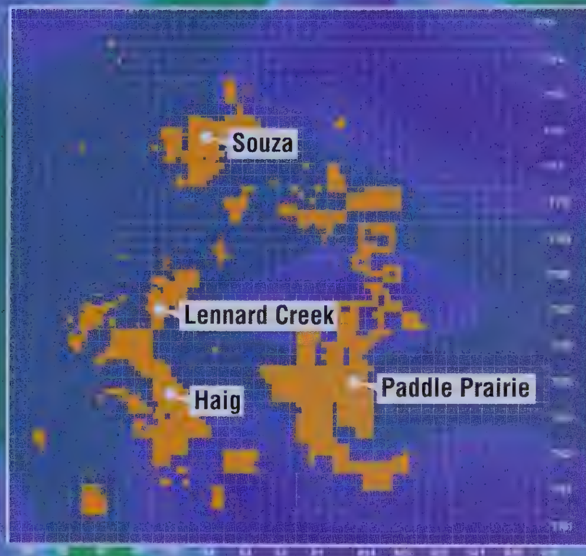
In 1996 Penn West moved into the next phase of its program of full-cycle exploration. Using its undeveloped land base of 1.3 million net acres and a capital program of $101.8 million, Penn West pursued a range of programs at key properties in its four Core Areas that increased daily production volumes, replaced 220 percent of production and laid the foundation for future exploration and development. Penn West drilled a total of 101.8 net wells in 1996, attaining a success rate of 85 percent. Yearly average daily production increased from 20,417 boe/day in 1995 to 24,383 boe/day in 1996.

During 1996 Penn West pursued major drilling and infrastructure improvement programs on key properties from our large base of undeveloped and semi-developed land acquired during 1994 and 1995.

Improvements in seismic technologies have allowed oil and natural gas companies to increase oil and natural gas reserves and production in the Western Canada Sedimentary Basin. A significant portion of Penn West's capital budget was spent on seismic acquisition, both in exploratory and in development areas. The Company maintains a large seismic database and conducts an extensive program of seismic acquisition to assist the technical team in reducing risk and improving development prospects at our key properties. Penn West continues to use a combination of geological mapping and the latest seismic processing and interpretation techniques to reduce exploration risk and assist in pool development.

In 1996 Penn West augmented its technical team of geologists, geophysicists, engineers and technicians to ensure that the Company maintains a high rate of success as its production and reserves base continue to grow.

Boyer Prospect
Northern Area



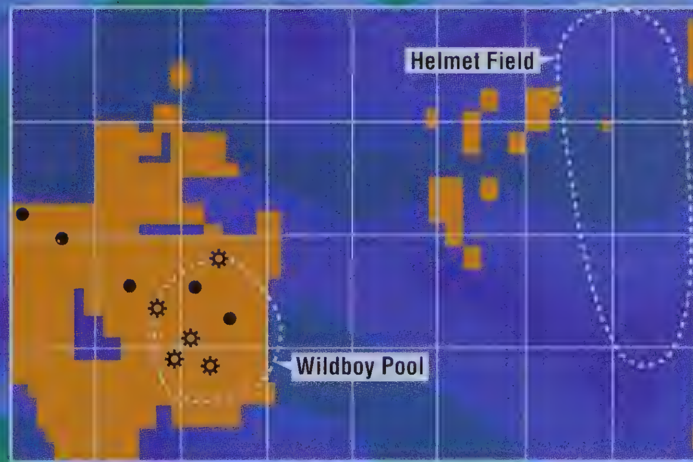
- Penn West Lands
- 1995/96 Penn West Natural Gas Well
- 1997 Penn West Location
- Penn West Natural Gas Plant
- Penn West Project Area

Boyer Prospect

Penn West began to accumulate land, production and infrastructure at Boyer in northwest Alberta in 1993, with an eye to developing natural gas reserves and production in the shallow depth Bluesky, Gething and Banff zones. By the end of 1996 Penn West had grown production to 22 mmcf/day of natural gas, and had installed new processing facilities and gathering systems at Haig, Lennard Creek and Souza.

During 1997 Penn West will drill 30 wells at Boyer, increasing our production to 35 mmcf/day of natural gas. Having proven up recoverable reserves of 80 bcf, we believe that the area has even more reserves to be found. The Company plans to continue exploration and development in the area in 1998 and beyond, with projected production additions of 8 mmcf/day of natural gas, per year.

WILDBOY PROSPECT
NORTHERN AREA



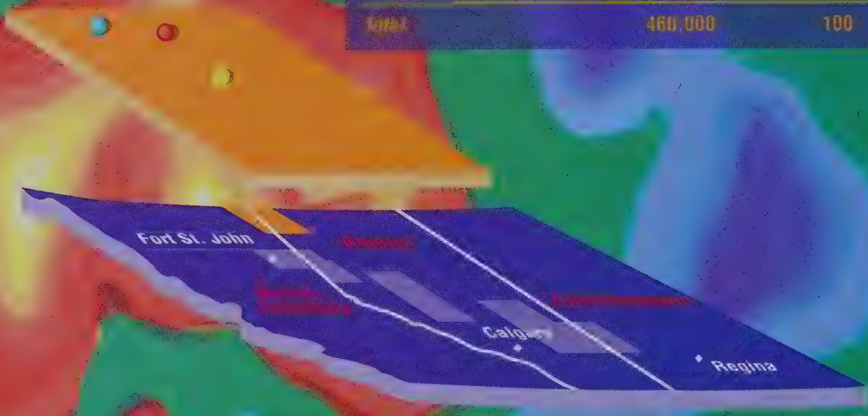
Wildboy Prospect

The ability to move into unexplored areas and discover new reserves of oil and natural gas is the ultimate measure of an oil and gas producer's technical and managerial abilities. An example of Penn West's exploration capability is our successful program at Wildboy. In 1995 Penn West drilled a discovery well here into the Devonian Jean Marie formation, then in 1996 moved aggressively to assemble further development lands as it worked to delineate the Wildboy field.

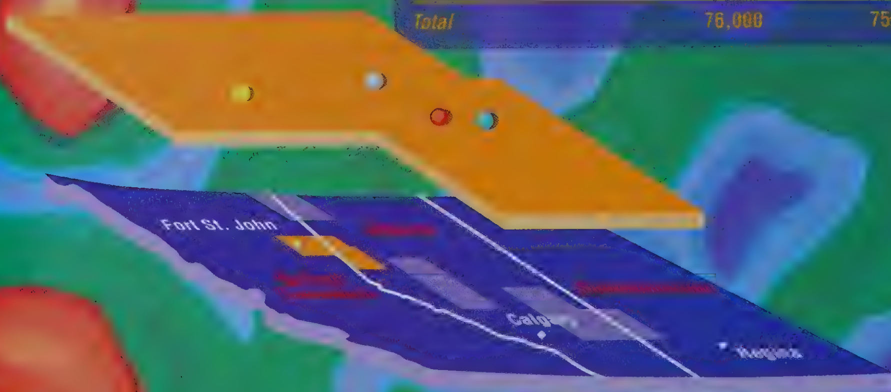
During 1996 Penn West drilled five exploratory wells which helped us begin the task of fully understanding this exciting prospect. This program identified proven reserves of 50 bcf of natural gas. Thus far in 1997 the Company has drilled and cased four additional exploratory wells, extending the Wildboy pool by 20 square miles and adding significant new reserves of natural gas.

Penn West will begin to exploit Wildboy's reserves in 1998 with the construction of a natural gas processing facility and gathering system. We will initially bring on 20-25 mmcf/day of natural gas production. Because of Wildboy's very promising long-term potential, our infrastructure program will provide room for future volume additions. Penn West believes this prospect will eventually show proven reserves in excess of 100 bcf of natural gas.

[illegible]	undeveloped land (net acres)	production* oil and liquids (bbls/day)	production* natural gas (mmcf/day)
Boyer	240,000	40	22.0
[illegible]	85,000	-	-
Hotchkiss	9,000	-	2.5
[illegible]	126,000	60	1.5
Total	460,000	100	26.0

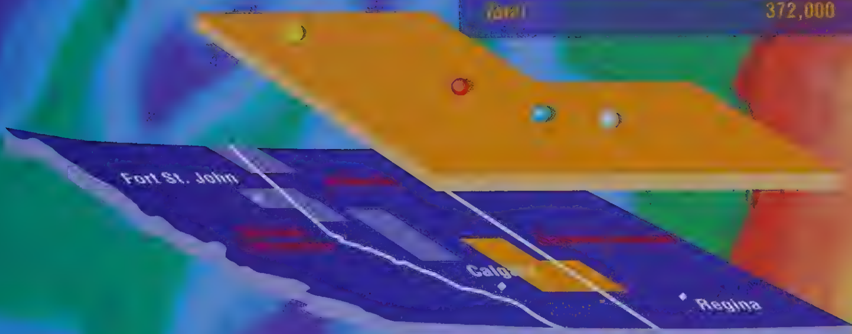


Peace River Arch	undeveloped land (net acres)	production* oil and liquids (bbls/day)	production* natural gas (mmcf/day)
Progress	21,000	600	18.0
[illegible]	1,000	-	6.0
Buick Creek	15,000	70	9.0
Pouce Coupe	10,000	50	2.0
[illegible]	29,000	30	3.0
Total	76,000	750	38.0



Central	undeveloped land (net acres)	production* oil and liquids (bbls/day)	production* natural gas (mmcf/day)
[illegible]	31,000	1,300	24.5
[illegible]	1,000	580	0.2
Otter	22,000	840	-
Heart River	12,000	-	6.5
[illegible]	116,000	1,450	8.3
[illegible]	182,000	4,170	39.5

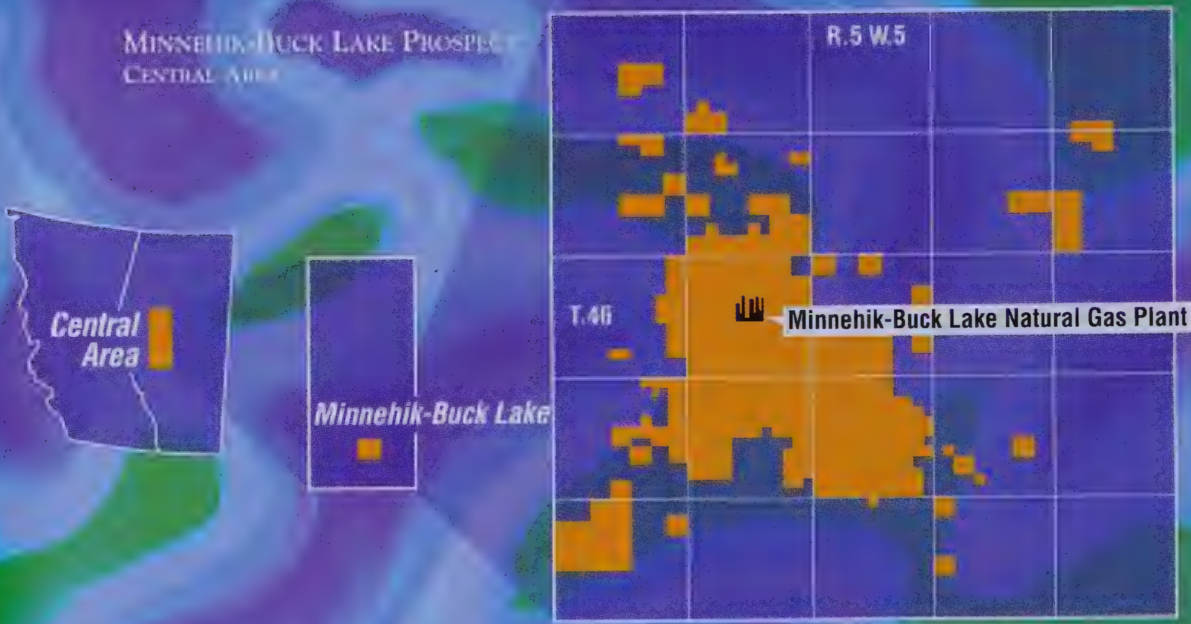
Plains	undeveloped land (net acres)	production* oil and liquids (bbls/day)	production* natural gas (mmcf/day)
[illegible]	85,000	2,200	15.5
[illegible]	131,000	1,300	7.2
Redwater	1,000	940	0.3
Hoosier	37,000	350	-
[illegible]	118,000	1,060	6.0
[illegible]	372,000	5,850	29.0



Total Core Areas	1,090,000	10,870	132.5
Non-Core Properties	228,000	930	4.5
Total All Properties	1,318,000	11,800	137.0

* based on 1996 daily average exit volumes

MINNEHIK-BUCK LAKE PROSPECT
CENTRAL AREA



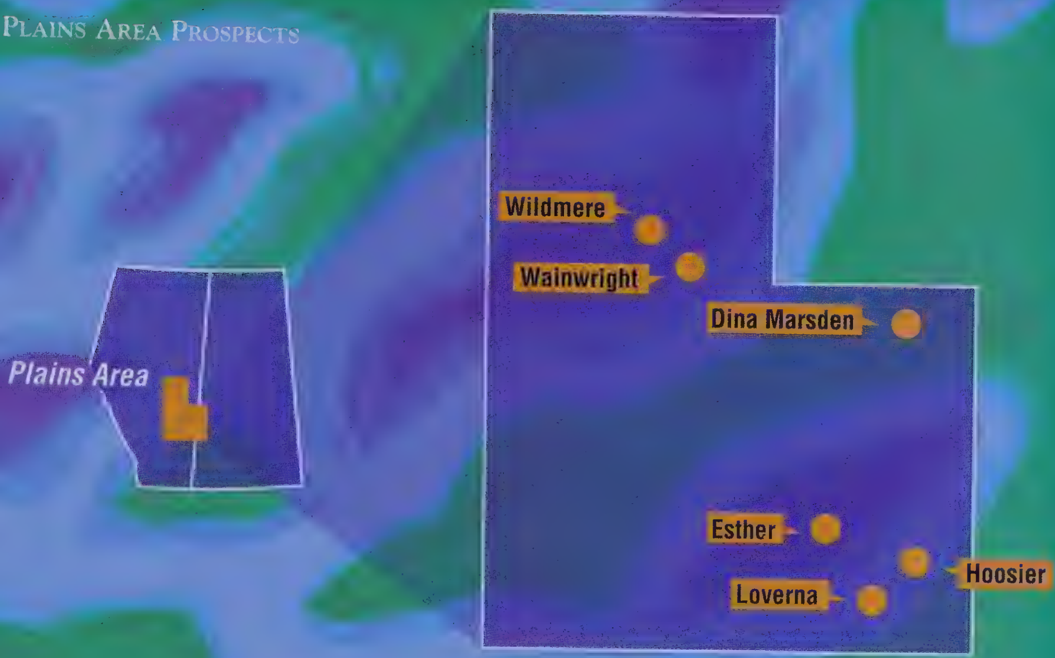
Minnehik-Buck Lake Prospect

The Minnehik-Buck Lake property is an important building block in Penn West's strategy of sustainable growth. Exploration and development in the area had been focused since the 1960s on a large Mississippian Age Pekisko gas reservoir. When Penn West acquired production, land and infrastructure in the area in 1995, we saw numerous opportunities for untapped reserves both above and below the Pekisko.

The Company's initial tasks were to consolidate our land position and increase our working interest. We accomplished those tasks during 1996, then moved to modernize the Company-operated Minnehik-Buck Lake natural gas plant, increasing its inlet capacity to more than 130 mmcf/day.

In 1997 Penn West moves into the next phase of development at Minnehik-Buck Lake. We will drill 20 wells, to add reserves and production from a variety of oil and natural gas bearing reservoirs. We will continue the process of exploitation at Minnehik-Buck Lake in the medium term with additions of production and reserves through the drill bit.

Plains Area Prospects



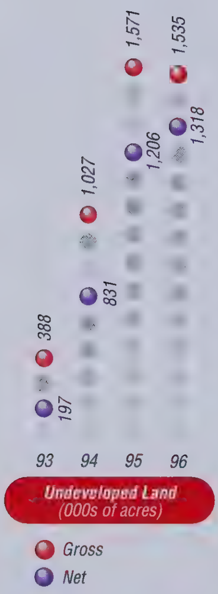
Plains Area

Penn West's Plains Area provides the backbone of the Company's oil and liquids production and is a significant natural gas producing region. Since 1993 we have built an inventory of undeveloped land and prospects in our Plains Area, with an objective of using this Core Area as a base to grow Penn West's oil production and reserves.

Starting in 1995 and continuing into 1996 Penn West achieved success with million barrel-plus finds at Esther, Marsden, Hoosier and Wildmere. Extensive use of 3-D seismic and high-volume lift techniques have improved project economics and reduced overall risk to the point where Penn West will commit a large portion of future capital to exploiting reserves underlying the Plains Area.

In 1997 we plan to drill more than 100 wells to explore for new oil at Loverna, Smiley, North Hoosier, Czar and South Wainwright and to further develop our producing fields at Hoosier, Esther, Luseland, Dina Marsden, Wainwright and Wildmere.

A key prerequisite for sustaining long-term growth is maintaining a portfolio of geologically promising undeveloped land. Penn West focused its attention and capital in 1994 and 1995 on assembling a large base of semi-developed and undeveloped land through acquisition, then rationalizing these landholdings into a cohesive set of properties to provide the springboard for cost-effective, long-term growth.



By year-end 1995, the Company's undeveloped land base totalled 1.2 million net acres. During 1996, Penn West added more than 100,000 net acres of undeveloped land, chiefly through purchases of Crown lands. These lands provide additional exploration and development opportunities surrounding existing properties. The Company's undeveloped land base totalled 1,318,000 net acres at year-end 1996.

Undeveloped land base

(000s of acres)	1996	1995	1994
gross acres	1,535	1,571	1,027
net acres	1,318	1,206	831
average working interest (%)	86	77	81

Cost control is a crucial tool to ensuring healthy netbacks. An important method for controlling specific costs is to focus activities on areas of high working interest and concurrently to acquire operatorship of all key properties. A combination of rationalization of non-core properties and consolidation at key properties have increased Penn West's average working interest in its portfolio from 77 percent in 1995 to 86 percent in 1996.

A high working interest allows Penn West to control operations at its key properties and, equally important, the nature and pace of development. Infrastructure improvements such as increasing natural gas processing capacity at Company-owned plants increase operational efficiencies and provide custom processing revenues. More important, they allow Penn West to cost-effectively increase reserves and

production at these properties by acquiring, exploring and developing surrounding areas, then bringing new pools into production quickly without incurring costly shut-ins or third-party processing charges.

These operating principles, combined with the efforts of Penn West's technical team, have allowed the Company to achieve and maintain low finding costs.

Since 1993 Penn West has been a consistent leader in terms of reserves additions per dollar of capital spent. Penn West's average finding costs of proven reserves, being the all-in cost of identifying and bringing on production one new barrel of oil equivalent, were $5.19/boe in 1996.

The aforementioned operating principles are combined with Penn West's development strategy to create and fuel a self-sustaining development vehicle, or "machine", that continually increases reserves and production while generating ever-greater cash flow and net income.

The Company has structured its portfolio of oil and natural gas properties to provide prospects positioned at various stages of development that offer a range of opportunities for exploration, development and exploitation. By maintaining a diversified group of projects and prospects, Penn West is able to fuel growth that is consistent and profitable. The Company continues to acquire undeveloped land for future development programs.

Review of Core Areas

Plains Area Penn West's Plains Area provides the backbone of the Company's oil and liquids production and is a significant natural gas producing region. Located in southeastern Alberta and southwestern Saskatchewan, the Plains Area provided 50 percent of our oil and liquids production and 21 percent of our natural gas production by year-end 1996.

Penn West's exploration in the Plains Area is driven by our belief that millions of barrels of untapped oil underlie our lands. Since 1993 we have built a base of 372,000 net undeveloped acres in our Plains Area and have assembled numerous highly prospective plays.

The Plains Area is a low-risk production and development area characterized by shallow depth drilling of less than 1,000 metres into multi-zone targets in the Belly River, Viking, Colony, McLaren, Sparky, Mantario and Bakken horizons. Thanks to the application of modern seismic technologies and recovery techniques, the Plains Area contains numerous further exploration and development opportunities.

Penn West is focusing its activities in this area on developing underexploited horizons at existing producing areas, as well as on developing new properties that are geologically similar to existing producers. The experience gained at existing producing properties provides a "template" of development techniques to identify new reserves and bring these on production quickly and at low cost.

Major producing fields in the Plains Area

	undeveloped land (net acres)	oil and liquids (bbls/day)*	natural gas (mmcf/day)*
Wainwright	85,000	2,200	15.5
Esther	131,000	1,300	7.2
Redwater	1,000	940	0.3
Hoosier	37,000	350	-
Other	118,000	1,060	6.0
	372,000	5,850	29.0

* based on 1996 daily average exit volumes

Starting in 1995 and continuing into 1996 we achieved success with significant oil production and reserves growth at Esther, Dina Marsden, Hoosier and Wildmere. The application of high volume lift techniques and extensive use of seismic data have improved project economics and reduced overall risk to the point where Penn West will commit a large portion of future capital to exploiting reserves underlying our Plains Area. In 1997 we will drill more than 100 exploration and development wells in the area, focusing on oil prospects to fuel production volumes and reserves growth.

In the future the Plains Area prospects will provide multiple opportunities to Penn West, with not only grassroots exploration and development, but also waterfloods, infill drilling and horizontal drilling opportunities that will give Penn West the ability to grow production rates over the medium term and to improve recovery rates for the long term.

CENTRAL AREA Penn West's Central Area is evolving into a significant contributor to the Company's production and cash flow. Penn West's undeveloped land holdings in the area increased to more than 182,000 net undeveloped acres during 1996, while average production totalled 4,170 bbls/day of oil and liquids and 39.5 mmcf/day of natural gas.

The Minnehik-Buck Lake property is the cornerstone of the Central Area, accounting for more than 46 percent of the area's production on a boe basis. When Penn West first acquired Minnehik-Buck Lake in 1995, we saw numerous opportunities for untapped reserves and production. We laid the foundation for cost effective future growth by increasing our working interest, consolidating our land position and modernizing the Minnehik natural gas plant, increasing its inlet capacity to 130 mmcf/day.

Major producing fields in the Central Area

	undeveloped land (net acres)	oil and liquids (bbls/day)*	natural gas (mmcf/day)*
Minnehik-Buck Lake	31,000	1,300	24.5
Swan Hills	1,000	580	0.2
Otter	22,000	840	-
Heart River	12,000	-	6.5
Other	116,000	1,450	8.3
	182,000	4,170	39.5

* based on 1996 daily average exit volumes

The Central Area's already significant levels of production are complemented by a range of development opportunities in medium-depth Belly River, Cardium, Viking, Glauconite, Ostracod, Nordegg and Mississippian horizons. During 1997 Penn West will take the initial step forward in the development of our Central Area by moving into the next phase of development at Minnehik-Buck Lake. A program of up to 20 new wells will tap these undeveloped and underexploited reservoirs and bring growth in natural gas and liquids production volumes and reserves.

PEACE RIVER ARCH AREA Penn West's Peace River Arch Area, which produced relatively small volumes of oil and natural gas until 1994, began to display its true potential during 1995 and 1996. This area, which occupies parts of northwest Alberta and extends into British Columbia, has rich, multi-zone oil and natural gas reserves ranging from the shallow-depth Doe Creek horizon to Kiskatinaw and Wabamun horizons at depths exceeding 2,400 metres. The area contains tremendous additional potential for new reserves of oil, liquids and natural gas in the Triassic, Paddy/Cadotte and Doe Creek horizons.

Major producing fields in the Peace River Arch Area

	undeveloped land (net acres)	oil and liquids (bbls/day)*	natural gas (mmcf/day)*
Progress	21,000	600	18.0
Saddle Hills	1,000	-	6.0
Buick Creek	15,000	70	9.0
Pouce Coupe	10,000	50	2.0
Other	29,000	30	3.0
	76,000	750	38.0

* based on 1996 daily average exit volumes

During 1996 Penn West began working toward a long-term goal of developing new fields in the Peace River Arch area by using the technical advantages we capitalized on at Progress in 1995. Late in the year Penn West drilled a successful well into a Triassic formation at Buick Creek, British Columbia, that will initiate the development of a new field in 1997. Tied-in during late December, the well is producing at a rate in excess of 600 boe/day.

For the rest of this year Penn West will focus on adding new production at Progress and Buick Creek, as well as developing grass roots production at Firebird. To sustain our production growth over the medium term, we will be drilling exploratory wells at Dawson Creek and Buick Creek with a view to identifying new fields for future development.

Northern Area Penn West's Northern Area, straddling the northern border region of Alberta and British Columbia, is the least developed of our four Core Areas. Thanks to our base of undeveloped land, which we increased to nearly 500,000 net acres during 1996, and the rich nature of the area's multi-zone shallow, medium-depth and deep reserves, the Northern Area contains the Company's greatest potential for future growth in reserves and production of natural gas.

Penn West began to accumulate land, production and infrastructure in our Northern Area in 1993 with an eye towards creating sustainable growth in natural gas production and reserves. Improvements in pipeline infrastructure permitted development activities to be launched in 1995. To date we have concentrated on developing natural gas production at Boyer while initiating an exciting natural gas exploration project at Wildboy.

By the end of 1996 Penn West had grown daily production at Boyer to 22 mmcf/day of natural gas. In 1997 Penn West will drill 30 wells at Boyer to increase our daily production rate to 35 mmcf/day. We plan to continue exploration and development at Boyer in 1998 and beyond, with production additions projected at 8 mmcf/day of natural gas, per year.

Penn West's Northern Area exploration program brought gratifying results in 1996. Our Wildboy prospect, a completely undeveloped area as recently as 1994, was the scene of a Penn West discovery well in 1995. Core and log information and extensive production testing convinced Penn West that our Wildboy acreage had the potential to contain large reserves of natural gas.

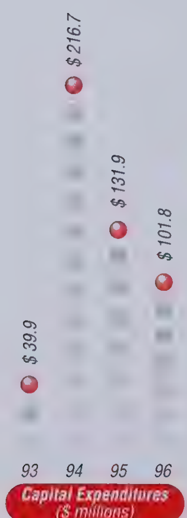
To the end of 1996, Penn West had assembled more than 80,000 net acres of undeveloped land at Wildboy and drilled five additional exploratory wells to delineate a new reservoir of natural gas in the Devonian Jean Marie formation. Penn West has delineated reserves of over 50 bcf of natural gas, of which only 10 bcf was booked in 1996.

Major producing fields in the Northern Area

	undeveloped land (net acres)	oil and liquids (bbls/day)*	natural gas (mmcf/day)*
Boyer	240,000	40	22.0
Wildboy	85,000	-	-
Hotchkiss	9,000	-	2.5
Other	126,000	60	1.5
	460,000	100	26.0

* based on 1996 daily average exit volumes

Wildboy will be the scene of five further exploratory wells during 1997 to delineate additional natural gas reserves. Penn West will begin to exploit Wildboy reserves in 1998 with the construction of a gathering system and gas processing facility to handle 20-25 mmcf/day.



Capital Program

Penn West's capital program, devoted largely to acquisitions in previous years, was re-focused almost entirely on exploration and development during 1996. The Company spent a total of $101.8 million on exploration, development and acquisitions through the year and achieved excellent results in terms of cost-effective increases in reserves and production. The Company's significant shift in focus meant that expenditures on acquisitions were $8 million, net of dispositions, while our spending on land, drilling, completions and facilities increased by $37 million over 1995 to $88 million in 1996.

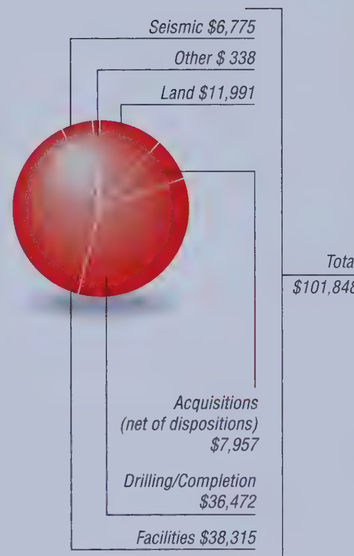
Capital expenditures

($000s)	1996	1995	1994
Land	$ 11,991	$ 8,832	$ 9,177
Acquisitions	29,604	118,779	191,638
Drilling and completions	36,472	18,235	18,274
Facilities	38,315	23,729	27,185
Geological and geophysical	5,775	4,788	6,034
Other	338	293	316
Dispositions	(21,647)	(42,707)	(35,910)
Capital expenditures	$ 101,848	$ 131,949	$ 216,714

Production, Drilling and Reserves

Penn West's 1996 program of full-cycle exploration succeeded in setting new records for wells drilled, production and year-end reserves. During 1996 Penn West drilled a total of 121 wells (101.8 net), resulting in 63 oil wells (55.3 net) and 42 natural gas wells (31.4 net). The Company achieved an overall success rate of 85 percent on a net basis.

This drilling program allowed Penn West to increase average daily production from 20,317 boe/day in 1995 (10,577 bbls/day of oil and liquids, and 97.4 mmcf/day of natural gas) to 24,383 boe/day in 1996 (11,483 bbls/day of oil and liquids, and 129 mmcf/day of natural gas) and to add 19.6 million boe of proven reserves. These new reserves were discovered at an all-in cost of $5.19/boe of proven reserves, and replaced 220 percent of our total 1996 production. We are proud to note that these low finding costs were achieved in the context of attaining a large percentage of our production and reserves increases through the drillbit, validating our strategy of full-cycle exploration to achieve sustainable growth.



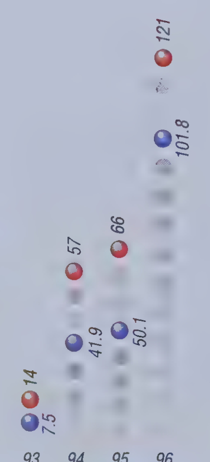
1996 Capital Expenditures ($000s)

Drilling results

	1996		1995		1994	
	gross	net	gross	net	gross	net
Oil	63	55.3	16	10.4	9	8.0
Natural gas	42	31.4	42	32.9	39	28.5
Dry	16	15.1	8	6.8	9	5.4
Total	121	101.8	66	50.1	57	41.9
Average working interest (%)		84		76		74
Success rate (%)	87	85	88	86	84	87

Finding and on-stream costs

	1996	1995	1994
Net proven reserve additions (mmboe)	19.6	24.4	38.1
Average cost ($/boe)	$ 5.19	$ 5.39	$ 5.70
Net proven and probable reserve additions (mmboe)	[illegible]	25.8	47.6
Average cost ($/boe)	[illegible]	$ 5.11	$ 4.55



Drilling Activity

Reserve values

	Reserves (before royalty)		Discounted value of estimated future net revenues ($ millions)			
	oil and liquids (mmbbls)	natural gas (bcf)	0%	10%	15%	20%
Proven producing	30.4	282.2	833.9	494.1	412.5	355.7
Proven non-producing	2.2	158.1	253.5	108.7	79.0	59.5
Total proven	32.6	440.3	1,087.4	602.8	491.5	415.2
Probable	7.8	74.7	287.5	92.7	63.2	45.6
December 31, 1996	**40.4**	**515.0**	**1,374.9**	**695.5**	**554.7**	**460.8**
December 31, 1995	33.6	481.5	1,165.5	587.0	465.6	384.8
December 31, 1994	30.5	328.7	918.2	445.7	351.2	289.2

Oil and liquids reserves

(mmbbls, before royalties)	1996	1995	1994
Proven producing	30.4	24.9	22.3
Proven non-producing	2.2	1.1	0.4
Total proven	32.6	26.0	22.7
Probable	7.8	7.6	7.8
Total	40.4	33.6	30.5
Reserve life index (years)*	[illegible]	7.9	8.8

*based on 1996 daily average exit volumes

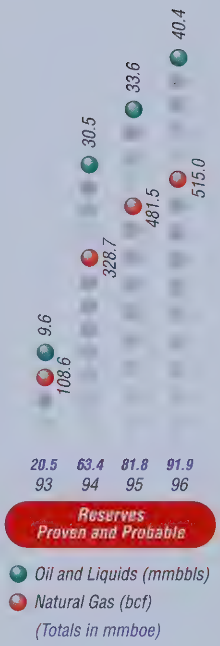
Natural gas reserves

(bcf, before royalties)	1996	1995	1994
Proven producing	282.2	248.4	140.2
Proven non-producing	158.1	151.2	122.5
Total proven	440.3	399.6	262.7
Probable	74.7	81.9	66.0
Total	515.0	481.5	328.7
Reserve life index (years)*	[illegible]	11.7	11.5

*based on 1996 daily average exit volumes

Reserve additions (before royalty)

	oil and liquids (mmbbls)			natural gas (bcf)		
	proven	probable	total	proven	probable	total
December 31, 1993	6.6	3.0	9.6	88.9	19.7	108.6
discoveries and extensions	3.7	-	3.7	106.2	19.0	125.2
acquisitions/dispositions	16.6	8.1	24.7	96.3	41.5	137.8
production	(2.5)	-	(2.5)	(21.2)	-	(21.2)
revisions of prior estimates	(1.7)	(3.3)	(5.0)	(7.5)	(14.2)	(21.7)
December 31, 1994	22.7	7.8	30.5	262.7	66.0	328.7
discoveries and extensions	4.9	0.2	5.1	79.2	18.2	97.4
acquisitions/dispositions	4.5	0.1	4.6	103.5	9.6	113.1
production	(3.9)	-	(3.9)	(35.6)	-	(35.6)
revisions of prior estimates	(2.2)	(0.5)	(2.7)	(10.2)	(11.9)	(22.1)
December 31, 1995	26.0	7.6	33.6	399.6	81.9	481.5
discoveries and extensions	7.6	0.9	8.5	81.9	-	81.9
acquisitions/dispositions	3.2	(1.0)	2.2	11.2	(1.6)	9.6
production	(4.4)	-	(4.4)	(45.7)	-	(45.7)
revisions of prior estimates	0.2	0.3	0.5	(6.7)	(5.6)	(12.3)
December 31, 1996	**32.6**	**7.8**	**40.4**	**440.3**	**74.7**	**515.0**



Price forecast

	oil		natural gas
	WTI at Cushing, Oklahoma ($US/bbl)	Light crude at Edmonton ($Cdn/bbl)	TCGSL average field price ($Cdn/mmbtu)
1997	20.00	26.58	1.65
1998	20.39	26.85	1.80
1999	21.27	27.77	2.08
2000	22.18	29.00	2.19
2001	23.13	30.28	2.32
2002	24.12	31.61	2.45
2003	25.16	33.01	2.58

The estimate of future net production revenues at December 31, 1996, 1995 and 1994 was based on a price forecast used by Sproule Associates Limited in their independent report.

The forecast for oil prices is based on a benchmark price of West Texas Intermediate crude oil delivered at Cushing, Oklahoma. This forecast was adjusted for transportation and quality differentials and translated to Canadian dollars at US $1= Cdn $1.37 (US $0.73 = Cdn $1) to reflect Edmonton Refinery postings for 40° API crude oil with a sulphur content of 0.4 percent.

Reserve quality and terms of applicable sales contracts are reflected in the natural gas price forecast. The TransCanada Gas Services Limited (TCGSL) forecast is provided as a benchmark only.

Netbacks

Operating success in the upstream oil and natural gas industry means little if a producer is unable to achieve corresponding financial success. A cornerstone of the foundation for financial success is attaining high netbacks on oil, liquids and natural gas production by maintaining low finding and operating costs. Penn West has been successful on both fronts. Thanks to its success at cost control, the Company in 1996 achieved average netbacks of $11.70/bbl of oil and liquids production and $1.15/mcf of natural gas production. Both figures represent significant increases from the netbacks achieved in 1995.

Outlook for 1997

Based on our strong performance in 1996 and a wealth of exploration and development prospects, the employees, management and directors of Penn West move into 1997 with tremendous enthusiasm. Our team is dedicated to achieving long-term sustainable growth in production, cash flow, reserves and shareholder value.

Penn West will drill approximately 175 net wells in 1997 using planned capital of $115 million. Consistent with our strategy for sustainable growth, our exploration and development programs will focus on a mix of low-risk development and exploitation opportunities and medium-risk exploration plays, with a little room for wildcatting for large pools.

In the Plains Area we will focus on opportunities to add oil reserves and production at Loverna, Hoosier, Esther, Luseland, Dina Marsden and Wildmere.

Up to 20 wells will be drilled to exploit liquids-rich natural gas reserves in our Central Area.

We remain excited about the multi-zone potential of our Peace River Arch Area, and plan exploratory tests at Buick Creek and Dawson Creek in addition to development projects at Buick Creek and Firebird.

Our Northern Area will provide solid natural gas production additions at Boyer, and offers the potential for significant natural gas reserve additions at Wildboy.

Continued opportunities to consolidate in our Core Areas through rationalization or acquisitions will be evaluated for cost and potential and will be pursued if they promise to contribute profitably to the Company's long-term growth. To that end, we have reserved approximately 15 percent of our 1997 budget for acquisitions.

Marketing

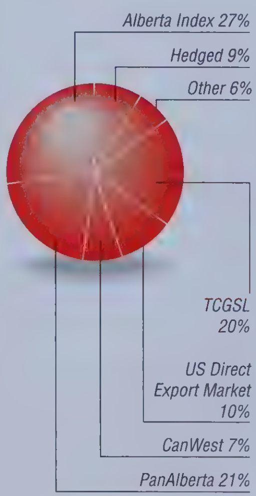
Penn West's marketing approach continues to encompass the following principles:

- Maximize production from existing assets and avoid shut-in production;
- Diversify natural gas marketing on a geographic basis in order to maintain competitive prices; and
- Selectively hedge a portion of production to secure capital programs and allow for more efficient reinvestment.

Penn West uses a strategy of selling natural gas production based on a variety of indices to prevent excessive cash flow fluctuations, thereby reducing price risk.

Natural Gas Marketing Penn West was able to produce its natural gas reserves at rates of take approaching 100 percent through the efficient use of firm transportation and through the active management of field nominations and excess volumes. This was achieved along with an average price of $1.74 per mcf in 1996 and a strong fourth quarter price of $2.12 per mcf. It is expected that Penn West's natural gas price will remain strong through the first quarter of 1997.

The accompanying chart outlines Penn West's expected sales portfolio in 1997. Natural gas sales will be split approximately 50 percent to aggregators and 50 percent to direct sales. Consistent with our goal of geographic diversification, Penn West in 1996 added 20 mmcf/day of direct sale U.S. export markets to our sales portfolio, with commencement dates staggered over 1997 to 1999.



Natural Gas Marketing 1997 Plan

Oil and Liquids Marketing Once again in 1996, Penn West was able to maintain 100 percent takes from the Company's oil properties. Based on the recent expansion of the IPL Energy pipeline and the new Express crude oil pipeline into the U.S. Midwest, concerns regarding crude oil apportionment and the potential for shut-in production should ease going forward in 1997. Penn West will continue with its ongoing program to optimize netbacks from all crude oil production in 1997.

In 1996, the Company hedged a significant portion of its oil production to lock in sufficient cash flow to secure our capital program and service our debt. Penn West's equity issue in October 1996 significantly strengthened our balance sheet, reducing

the need to manage cash flow risks through hedging. Consequently, the crude hedging program has been reduced for 1997. To date in 1997, Penn West has hedged 2,250 bbls/day of oil production (approximately 20 percent of the Company's total oil production) at WTI prices averaging Cdn $27.17/bbl.

Environmental Statement

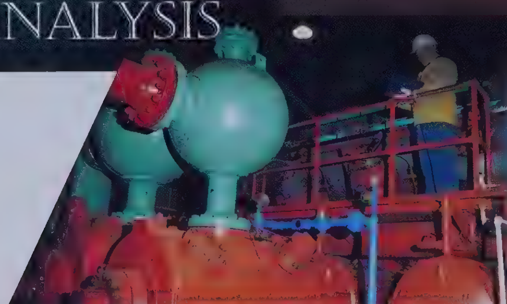
The petroleum industry has become more aware in recent years of the importance of minimizing the environmental impacts of oil and natural gas exploration and development, and Penn West is fully committed to meeting its responsibilities in this important area. The Company also recognizes the interests of other land users in resource development areas, conducting its operations accordingly. Penn West's Environmental Policy and Environmental Management Plan (EMP) encompasses the full range of air, water, soil and waste issues associated with oil and natural gas development. The EMP includes guidelines to 11 key areas that must be considered in conjunction with oil and natural gas development plans. These help ensure safe and environmentally sound field operations. Penn West's employees are trained in the objectives and implementation of the EMP.

The Company also conducts a comprehensive environmental inspection and risk assessment program. This program, launched in 1994, not only promotes sound environmental stewardship, but should reduce exposure to corporate liabilities associated with environmental impacts.

Penn West conducts a program of detailed inspections, audits and environmental testing to assess the environmental liabilities that will be incurred during the eventual decommissioning of its field facilities and reclamation of site lands. Penn West pursues a program of environmental impact reduction aimed at reducing these future corporate liabilities without hampering field productivity. This program, launched in 1994 and ongoing into 1997, includes measures such as removing flare pits, reclaiming spill sites and abandoning unproductive wells.

Penn West's environmental programs are monitored to ensure that they comply with all government environmental regulations and with the Company's own environmental policies.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion And Analysis

Favourable commodities prices, rigorous cost control and significant increases [illegible] Penn West to achieve strong growth in cash flow and net income per share in 1996 while sustaining capital investment and reducing the ratio of long-term debt to cash flow.

The year 1996 represented a significant shift for Penn West in our operational focus within our four Core Areas in western Canada. Penn West used its asset base of undeveloped land and underexploited projects to move more fully into the exploitation phase of its full-cycle exploration program, while continuing to acquire undeveloped land and conducting several promising raw exploration plays to ensure future growth. This shift in operational focus in 1996 allowed the Company to sustain growth in production volumes, revenues, cash flow and net income through the drillbit.

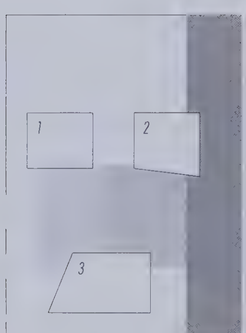
Revenues, Expenses and Netbacks

Oil and natural gas revenues

Years ended December 31 ($000s)

	1996	1995	1994
Oil and liquids	$ 91,614	$ 76,667	$ 49,007
Natural gas	82,159	52,401	40,531
	$173,773	$129,068	$ 89,538

Revenues from oil and liquids increased by 19 percent to $91.6 million in 1996 from $76.7 million in 1995. This increase resulted from a 10 percent increase in the average price received to $21.80/bbl in 1996 from $19.86/bbl in 1995. The increase in average price received was achieved in spite of a reduction in oil revenues of $12.3 million or $2.93/bbl due to hedging transactions. In addition, the increase in revenues occurred because of a 9 percent increase in average daily production to 11,483 bbls/day in 1996 from 10,577 bbls/day in 1995. The increase in production resulted from the successful 1996 full-cycle capital program.

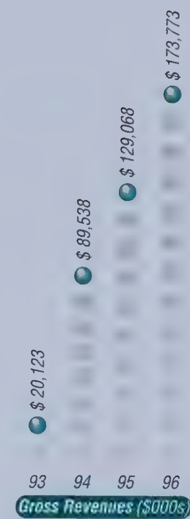


1 Control room, Minnehik-Buck Lake natural gas plant

2 Drilling rig near Loverna, Saskatchewan

3 Main compressor, Minnehik-Buck Lake natural gas plant

Revenues from natural gas increased 57 percent in 1996 to $82.2 million from $52.4 million in 1995. The increase in natural gas revenues resulted from a 32 percent increase in natural gas production to 129.0 mmcf/day in 1996 from 97.4 mmcf/day in 1995, and an increase of 18 percent in the average natural gas price received by Penn West, to $1.74/mcf in 1996 from $1.47/mcf in 1995. As with oil and liquids, production increases resulted from the successful 1996 drilling program.



1996 increases in gross revenues

($000s)	
Gross revenues - 1995	$ 129,068
Increase in oil and liquids production	6,789
Increase in oil and liquids price	8,158
Increase in natural gas production	17,179
Increase in natural gas price	12,579
Gross revenues - 1996	$173,773

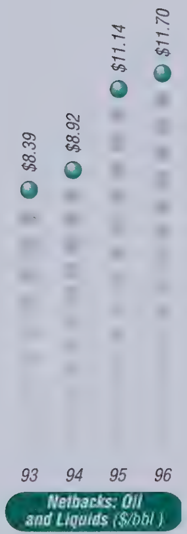
Royalty expenses

Years ended December 31

	1996	1995	1994
Royalties, net of Alberta Royalty Credit ($000s)	$ [illegible]	$ 17,044	$ 15,061
Average cost ($/boe)	$ 3.29	2.30	3.24
Percentage of gross revenues (%)	17	13	17

The average royalty rate, net of the Alberta Royalty Credit, was 17 percent or $3.29/boe in 1996. This rate increased from 13 percent or $2.30/boe in 1995 because of an increase in the oil and liquids royalty rate to 20 percent in 1996 from 16 percent in 1995, and an increase in the royalty rate of natural gas to 14 percent in 1996 from the rate of 9 percent for the year ended December 31, 1995.

The increase in the royalty rate for oil and liquids resulted from increased oil pricing, a higher effective royalty rate because of oil hedging losses and the expiration of oil royalty holidays. The increase in the average natural gas royalty rate resulted from the higher Crown royalty rates associated with the higher natural gas prices received in 1996 versus 1995.



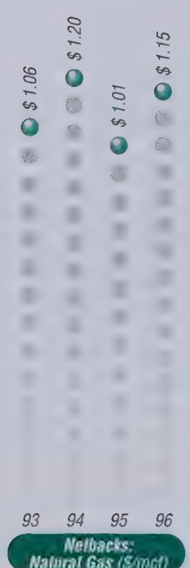
Operating expenses

Years ended December 31

	1996	1995	1994
Operating expenses ($000s)	[illegible]	$ 33,287	$ 24,644
Average cost ($/boe)	$ 4.59	$ 4.49	$ 5.30
Percentage increase (decrease) over previous year (%)	[illegible]	(15)	(8)
Percentage of gross revenues (%)	[illegible]	26	28

In 1996, field operating costs for all production averaged $4.59/boe, a 2 percent increase from the average cost of $4.49/boe achieved in 1995. Operating costs for oil and liquids increased by 4 percent to $5.76/bbl in 1996 from $5.53/bbl in 1995 because of a larger number of well workovers in 1996. In addition, higher water hauling charges were incurred as a result of additional oil production in our Plains Area. In 1997, these hauling costs will be eliminated through the completion of new oil handling facilities.

Operating costs for natural gas in 1996 were $0.35/mcf, an increase of 6 percent from $0.33/mcf in 1995. This increase is due to unscheduled shutdowns during the year because of mechanical failure and system constraints.

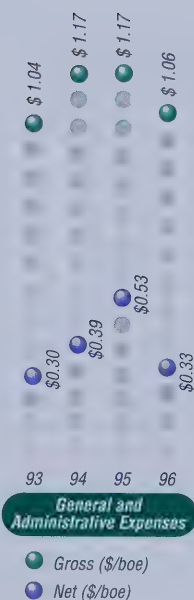


Netbacks

Years ended December 31

	1996	1995	1994
Oil and liquids			
Production (bbls/day)	[illegible]	10,577	6,934
Price ($/bbl)	[illegible]	$ 19.86	$ 19.27
Royalties, net ($/bbl)	[illegible]	(3.19)	(3.62)
Operating expenses ($/bbl)	[illegible]	(5.53)	(6.73)
Netback ($/bbl)	$ 11.70	$ 11.14	$ 8.92
Natural gas			
Production (mmcf/day)	[illegible]	97.4	58.2
Price ($/mcf)	$ 1.74	$ 1.47	$ 1.91
Royalties ($/mcf)	(0.24)	(0.13)	(0.32)
Operating expenses ($/mcf)	(0.35)	(0.33)	(0.39)
Netback ($/mcf)	$ 1.15	$ 1.01	$ 1.20

The increase in oil and liquids prices, partially offset by increases in average royalty rates and operating costs, caused Penn West's oil and liquids netback to increase by 5 percent to $11.70/bbl in 1996 from $11.14/bbl in 1995. The 18 percent natural gas price increase resulted in natural gas netbacks increasing by 14 percent to $1.15/mcf in 1996 from $1.01/mcf in 1995.



General and Administrative Expenses

General and administrative expenses

Years ended December 31

	1996	1995	1994
Gross expenses ($000s)	$ 9,491	$ 8,691	$ 5,457
Operator recoveries ($000s)	(4,678)	(3,344)	(2,618)
Capitalized expenses ($000s)	(1,846)	(1,420)	(1,009)
	$ 2,967	$ 3,927	$ 1,830
Gross general and administrative expenses - average cost ($/boe)	$ 1.06	$ 1.17	$ 1.17
Percentage of gross revenues (%)	5	7	6
Net general and administrative expenses - average cost ($/boe)	$ 0.33	$ 0.53	$ 0.39
Percentage of gross revenues (%)	2	3	2

Gross general and administrative expenses increased due to the increase in staff levels resulting from the increased asset base and production levels. However, when expressed on a per barrel of oil equivalent basis, the gross general and administrative costs decreased by 9 percent, to $1.06/boe in 1996 from $1.17/boe in 1995. These costs compare favourably with those of many far larger producers, and indicate that production levels increased by a greater proportion than staffing and associated costs, representing increased corporate productivity.

Net general and administrative expenses decreased by 38 percent to $0.33/boe in 1996 from $0.53/boe in 1995, due to a higher rate of overhead recoveries from the Company's 1996 capital program and a larger number of operated oil and natural gas properties and facilities.

Financing expenses

Years ended December 31

	1996	1995	1994
Interest ($000s)	$ [illegible]	$ 10,929	$ 6,014
Cash flow times interest coverage	[illegible]	6.8	7.9
Average cost ($/boe)	$ [illegible]	$ 1.48	$ 1.29
Percentage of gross revenues (%)	5	8	7

Interest expense for the year ended December 31, 1996 amounted to $9.5 million, a decrease of 13 percent from $10.9 million in 1995. This decrease resulted from lower average debt levels in 1996 because of the equity financing completed in October 1996 and lower interest rates experienced in the year.

Depletion, Depreciation and Taxes

Capital taxes

Years ended December 31

	1996	1995	1994
Capital taxes ($000s)	$ [illegible]	$ 819	$ 506

Capital taxes rose by 18 percent in 1996 to $964,000 from $819,000 due to the increase in shareholders' equity resulting from the equity issue completed in October 1996. This increase was offset by lower year-end debt levels in 1996 versus 1995.

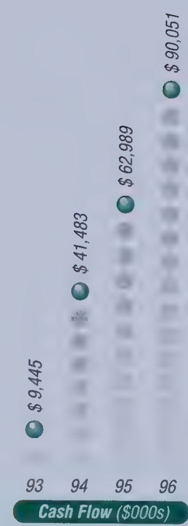
Depletion and depreciation

Years ended December 31

	[illegible]	1995	1994
Depletion and depreciation ($000s)	$ [illegible]	$ 36,824	$ 22,126
Current site restoration provision ($000s)	[illegible]	1,604	1,153
	$ [illegible]	$ 38,428	$ 23,279
Average cost ($/boe)	$ [illegible]	$ 5.18	$ 5.00
Percentage of gross revenues (%)	[illegible]	30	26

Depletion, depreciation and the site restoration provision increased by 11 percent to a total of $42.8 million in 1996 from $38.4 million in 1995. This was a consequence of an increase in the Company's resource base and the increase in

production levels. Penn West's specific average costs decreased by 8 percent to $4.79/boe in 1996 from $5.18/boe in 1995. The decline in the depletion and depreciation rate reflects Penn West's continued low finding and onstream costs and lower depreciation of natural gas processing facilities. The continued low finding and on-stream costs, coupled with higher netbacks in 1996, have resulted in Penn West having a cushion on its 1996 ceiling test calculation of approximately $530 million.



Income taxes

Years ended December 31

	1996	1995	1994
Deferred ($000s)	$ [illegible]	$ 12,677	$ 11,081
Effective tax rate (%)	49.5	51.5	60.9

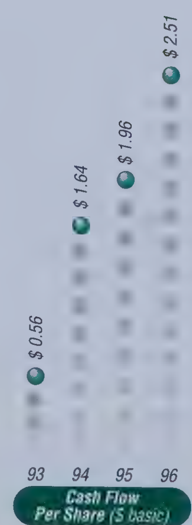
The provision for deferred income taxes rose 84 percent to $23.4 million in 1996 from $12.7 million in 1995, because of a 92 percent increase in Penn West's income before income taxes. The Company's effective income tax rate has declined slightly to 49.5 percent in 1996 from 51.5 percent in 1995.

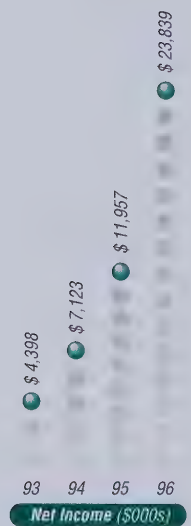
Cash Flow and Net Income

Cash flow and net income rose dramatically in 1996 over 1995 due to significant increases in production, stronger commodity prices, lower general and administrative costs and lower rate of depletion and depreciation charges.

Cash flow increased by 43 percent to $90.1 million in 1996 from $63.0 million in 1995. Basic cash flow per share increased by 28 percent and reached $2.51 in 1996 compared to $1.96 in 1995. Fully diluted cash flow per share increased by 28 percent to $2.43 in 1996 from $1.90 per share in 1995.

Net income grew by 99 percent to $23.8 million in 1996 from $12.0 million in 1995. Net income per share increased by 78 percent in 1996 to $0.66 from $0.37 in 1995.



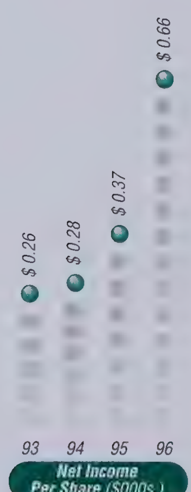


Items affecting cash flow and net income

Years ended December 31

	1996		1995		1994	
	$/boe	%	$/boe	%	$/boe	%
Oil and natural gas	[illegible]	100.0	$ 17.41	100.0	$ 19.24	100.0
Net royalties	[illegible]	[illegible]	(2.30)	(13.0)	(3.24)	(16.8)
Operating expenses	(4.59)	(23.6)	(4.49)	(26.0)	(5.30)	(27.5)
Net operating income	11.59	59.6	10.62	61.0	10.70	55.7
General and administrative	(0.33)	(1.7)	(0.53)	(3.1)	(0.39)	(2.0)
Interest	(1.06)	(5.4)	(1.48)	(8.5)	(1.29)	(6.7)
Capital taxes	(0.11)	(0.6)	(0.11)	(0.6)	(0.11)	(0.6)
Cash flow from operations	10.09	51.8	8.50	48.8	8.91	46.4
Depletion and depreciation	(4.79)	(24.6)	(5.18)	(29.8)	(5.00)	(26.0)
Deferred taxes	(2.62)	[illegible]	(1.71)	(9.8)	(2.38)	(12.4)
Net income	$ [illegible]	[illegible]	$ 1.61	9.2	$ 1.53	8.0

Liquidity and Capital Resources



Capitalization

	1996		1995		1994	
	$000s	%	$000s	%	$000s	%
Common share equity, at market	$ 549,962	80.7	$ 239,375	58.8	$ 178,082	59.2
Long-term liabilities	134,880	19.8	159,388	39.2	126,021	41.9
Working capital deficiency (surplus)	(3,248)	(0.5)	8,170	2.0	(3,207)	(1.1)
	$ 681,594	100.0	$ 406,933	100.0	$ 300,896	100.0

Penn West's closing market price on The Toronto Stock Exchange was $14.00 in 1996, $6⅞ in 1995 and $5⅞ in 1994. Market capitalization rose from $178 million in 1994 to $239 million in 1995 to $550 million in 1996.

Thanks to Penn West's continued strong growth in revenues and cash flow in 1996, and the financial markets' recognition of Penn West's performance and further potential, the Company's capital picture improved significantly over 1995. Market capitalization more than doubled, surpassing half a billion dollars, the previous year's working capital deficiency was eradicated and brought into surplus, and debt levels continued to fall in both gross and specific terms. These results leave Penn West solidly financed and well-positioned to fund its capital programs, which will be aimed at sustaining the Company's growth through exploration and development, primarily through internally generated funds.

The Company has an aggregate borrowing limit of $190 million on its loan facility with a syndicate of Canadian chartered banks, on which Penn West had drawn approximately $134.9 million at year-end 1996. This leaves approximately $45.1 million available, after reduction for $8 million of cheques issued in excess of cash on hand and $1.6 million for outstanding letters of credit. This loan facility is subject to an annual review by the lenders and requires no principal repayments provided that certain covenants with respect to asset coverage tests are met. These covenants are easily met and asset coverage tests are well covered by Penn West's reserve base.

To avoid excessive dilution of shareholders' equity, Penn West financed its strategic acquisitions of 1994 and 1995 primarily through increased levels of bank debt. Thanks to its strong growth and significant debt repayment, the Company has rapidly reduced its debt-to-cash-flow ratio, from 2.66:1 at the end of 1995 to 1.47:1 at year-end 1996. With the present profile of capital spending and cash flow growth, the Company will continue to operate through 1997 and beyond with total debt less than two times cash flow.

Penn West will fund its 1997 planned capital spending program of $115 million primarily from its cash flow, estimated at $110 million. The Company has sufficient capital to replace estimated 1997 production and generate longer term growth.

Business Risks and Prospects

The Company's exploration, development, production and acquisition activities are conducted in the Western Canada Sedimentary Basin and involve a number of business risks. These risks include the uncertainty of replacing annual production and finding new reserves on an economic basis and the instability of commodity prices, foreign exchange rates and interest rates. These risks are mitigated by the Company, by employing highly trained and competent management and staff who manage these risks as follows:

- Balance production portfolio between oil and natural gas;
- Pursue numerous investment opportunities, including:
  - Low risk development projects; and
  - Moderate risk exploration plays;
- Strategic acquisitions; and
- Maintain low finding, operating and general and administrative costs.

The oil and natural gas industry is subject to extensive government influence through taxation policies and environmental legislation. Taxation policy has remained stable within a reasonable operating environment, however there is always the potential for change.

The industry is also subject to extensive regulations imposed by governments related to the protection of the environment. Federal and provincial environmental legislation has undergone major revisions that have resulted in environmental standards and compliance becoming more stringent. The Company is committed to meeting its responsibilities to protect the environment wherever it operates and has instituted a series of controls and procedures with respect to environmental protection that meet the standards of the Environmental Code of Practice published by the Canadian Association of Petroleum Producers.

Penn West's growth pattern, established in 1993, is expected to continue in 1997 with forecast cash flow of $110.3 million or $2.80 per share, an increase of 22 percent and 12 percent, respectively, over 1996. This increase in cash flow will be achieved through increased production levels. The Company forecasts that oil and liquids and natural gas prices received in 1997 will be roughly equivalent to prices received in 1996.

Penn West continues to hedge a portion of its crude oil production, however lower volumes of oil have been sold forward in 1997. This can be credited to the increased financial flexibility experienced by the Company resulting from its $47 million equity issue, completed in October 1996.

The Company will continue its efforts to reduce operating costs. Operating costs for 1997 are budgeted to be $4.20/boe-$4.30/boe, down from the 1996 rate of $4.59/boe.

The results of operations are sensitive to changes in commodity prices, foreign exchange rates and interest rates. The following table summarizes those sensitivities:

Sensitivities

	impact on cash flow	impact on net income
Change of:		
Cdn$1.00/bbl of oil price ($000s)	$ 3,400	$ 1,735
Per Common Share	$ 0.09	$ 0.04
500 bbls/day in daily oil production ($000s)	$ 3,100	$ 1,580
Per Common Share	$ 0.08	$ 0.04
$0.10/mcf of natural gas ($000s)	$ 3,600	$ 1,836
Per Common Share	$ 0.09	$ 0.05
5,000 mcf/day in daily natural gas production ($000s)	$ 2,100	$ 1,070
Per Common Share	$ 0.05	$ 0.03
$0.01 in US$/Cdn$ exchange rate ($000s)	$ 2,100	$ 1,070
Per Common Share	$ 0.05	$ 0.03
1% in prime interest rate ($000s)	$ 1,500	$ 770
Per Common Share	$ 0.04	$ 0.02

Accounting

Tim Connolly Richard Drozda Gerry Elms Eugene Foisy Susan Funke Wally Grab Ann Ingles Cindy Kelly Jan Laird Johanne Laird Vincent Leung Bill Lewington Vincent Long Carol Lupyczuk Penny Norem Susan Ponto Brian Reed Eneta Sharma Irlanda Soto Lynn Spicer Todd Takeyasu Helen Wong

Exploitation and Operations

Ron Cawston Brian Dunn Shelly Ginther Muriel Harkness Nina Ta Ho Liz Lomheim Kevin MacInnes Matt Mazuryk Dale Miller Ed Mills Darrell Osinchuk Ken Pitts Ken Pyo Kristian Tange

Exploration

Dave Brooks Vincent Ekvall Lillian Faiman Cheryl Frostad Dan Koch Wayne Laturnas Albert Lee Paul Lee Mike Muirhead Randy Nelson Louise Pegg Mike Powell Don Rae Jim Robertson Mark Smith Kimberly Toews Peter Wuntke

Finance and Administration

Bill Andrew Leona Ballman Izumi Epp Glenn Hamilton Charlene Jamieson June McBride Joy Stuckle Carol Thompson

Land

Les Bailey Chris Baker Kun Cheang Jennifer Goat Larry Jones Karen Lidgren Susan Smythe Barry Warnick Guy Wilson Randy Woods Tracy Zbrodoff

Marketing

Nancy Ames Bryan Clake Magni Lake Minh Tran

Production

Kim Materi Clarke McLean Nancy Price Al Ralston Kathy Rurak Dennis Stringer Gordon Wichert Jerry Worobeck

Field Operations

Erhard Berger Gordon Borle Wayne Brzus Barry Chykerda Barry Clarkson Robert Collings Tom Cookson Don Cote Eugene Dennis Mervin Firkus Harvey Foss Melody Fraser Greg Gabert Leonard Granson Trevor Grover Ben Haluszka Brad Hancock Mark Hardman Terry Haug Trevor Hein Dean Herron Boyd Heyland Lawrence Hlushak Greg Hodgson Lloyd Johnson John Klein James Kluczny Michael Kluczny Richard Knorr Ross Larson Gregory Lavergne Robert Letourneau Barry Lyons Dennis Maciborsky Anthony Marchand Steven McDonald Wayne McEachern Les McKenzie Alvin Miller Robert Mischuk Bill Moody Dan Narkaus Jean Niblett Danny Nicolls Rhys Overman William Park Glen Petrie James Rowan Wayne Ruptash Carl Shantz Dennis Stuart Julian Tychkowsky Gregory Veer Janey Villiers Brian Waddell Frank Walcer Terry Worthing

Management's Report

The consolidated financial statements of Penn West Petroleum Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this report is consistent with that shown in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these consolidated financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the consolidated financial statements.

Glenn A. Hamilton
Treasurer & Chief Financial Officer
March 14, 1997

Gerry J. Elms
Controller

Auditors' Report

To the Shareholders of Penn West Petroleum Ltd:

We have audited the consolidated balance sheets of Penn West Petroleum Ltd. as at December 31, 1996 and 1995 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Arthur Andersen & Co.
Chartered Accountants

Calgary, Alberta,
March 14, 1997.

($000s)	December 31 1996	1995
ASSETS		
Current		
Accounts receivable	$ 43,980	$ 20,564
Other	6,221	7,323
	50,201	27,887
Property, plant and equipment (Notes 2 and 3)	414,504	352,032
	$ 464,705	$ 379,919
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 46,953	$ 36,057
Bank loan (Note 4)	134,880	159,388
Site restoration and abandonment	5,463	2,206
Deferred income taxes	45,432	22,953
	185,775	184,547
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	184,660	135,837
Retained earnings	47,317	23,478
	231,977	159,315
	$ 464,705	$ 379,919

Approved on behalf of the Board:

D L Russell

Director

Director

($000s, except per share amounts)

Years Ended December 31	1996	1995
Revenues		
Oil and natural gas	$ 173,773	$ 129,068
Royalties	(30,870)	(18,539)
Alberta Royalty Credit	1,469	1,495
	144,372	112,024
Expenses		
Operating	40,975	33,287
General and administrative	2,967	3,927
Interest on long-term debt	9,488	10,929
Capital taxes	964	819
Depletion and depreciation	42,768	38,428
	97,162	87,390
Income before income taxes	47,210	24,634
Income Taxes		
Deferred (Note 6)	23,371	12,677
Net income	23,839	11,957
Retained earnings, beginning of year	23,478	11,521
Retained earnings, end of year	$ 47,317	$ 23,478
Net income per Common Share (Note 7)	$ 0.66	$ 0.37

Consolidated Statements of Changes in Financial Position

($000s)

Years Ended December 31	1996	1995
Operating Activities		
Net income	$ 23,839	$ 11,957
Depletion and depreciation	42,768	38,428
Deferred income taxes	23,371	12,677
Unrealized foreign exchange loss (gain)	73	(73)
Cash provided by operating activities	90,051	62,989
Investing Activities		
Additions to property, plant and equipment	(123,495)	(174,656)
Expenditures on abandonments	(135)	(151)
Proceeds on sales of property, plant and equipment	21,647	42,707
Cash used in investing activities	(101,983)	(132,100)
Financing Activities		
(Decrease) Increase in long-term debt	(24,581)	33,440
Issue of common shares	49,930	24,294
Share issue costs	(1,999)	-
(Increase) Decrease in non-cash working capital	(11,418)	11,377
Cash provided by financing activities	11,932	69,111
Increase in cash	-	-
Cash and short-term deposits, beginning of year	-	-
Cash and short-term deposits, end of year	$ -	$ -

(All tabular amounts in $000s, except per share amounts)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements include the accounts of Penn West Petroleum Ltd. (the "Company") and its wholly owned subsidiaries and partnership.

b) Other current assets

Other current assets include deposits, prepayments and inventory valued at the lower of cost and net realizable value.

c) Property, plant and equipment

i) Capitalized costs

The full cost method of accounting for oil and gas operations is followed whereby all costs of acquiring, exploring and developing oil and gas reserves are capitalized. These costs include lease acquisition, geological and geophysical, exploration and development and related overhead costs. Proceeds from the disposition of oil and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such disposition results in a significant change in the depletion and depreciation rate.

ii) Depletion and depreciation

Depletion and depreciation of resource properties are calculated using the unit-of-production method based on production volumes before royalties in relation to total proved reserves as estimated by independent engineers. Natural gas volumes are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proven reserves and excludes salvage values and the cost of unevaluated property. Processing facilities, net of salvage, are depreciated based on the estimated useful life of the facilities.

iii) Ceiling test

The carrying amount of property, plant and equipment, net of recorded deferred income taxes and site restoration and abandonment costs, is limited to the sum of estimated future net cash flows from proven reserves and the cost, less impairment, of undeveloped properties. Future capital costs, production-related general and administrative expenses, interest expenses, and applicable income taxes are deducted in determining net future cash flows from proven reserves.

iv) Future site restoration and abandonment costs

A provision has been made for future site restoration and abandonment costs calculated on the unit-of-production method. The 1996 provision of $3,392,000 (1995 - $1,604,000) is included in depletion and depreciation in the Consolidated Statement of Income.

The calculations in ii) and iii) and iv) are based on sales prices, costs and regulations in effect at the end of the year.

d) Joint ventures

Substantially all of the Company's exploration and development activities are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

e) Hedging activities

The Company uses forward contracts to hedge its exposure to commodity price, foreign exchange and interest rate fluctuations. Gains and losses on oil and natural gas and foreign exchange transactions are reported as adjustments to oil and natural gas revenues when the related production is sold and gains or losses on interest rate hedging transactions are reported as adjustments to interest on long-term debt.

f) Foreign currency translation

Amounts denominated in foreign currencies are translated into Canadian dollars at the year end exchange rates. Gains or losses are included in net income, except those related to long-term debt on which the gains or losses are deferred and amortized over the life of the debt.

2 ACQUISITION OF SUBSIDIARY

Effective July 28, 1995, the Company acquired all of the shares of Northern Reef Exploration Ltd. ("Northern Reef"). The acquisition of Northern Reef was accounted for by the purchase method as follows:

Assets acquired:	
Property, plant and equipment	$ 74,555
Consideration:	
Cash	$ 26,581
Working capital assumed	3,662
Issue of 3,994,404 common shares	21,895
Long-term debt assumed	22,417
Total purchase price	$ 74,555

3 PROPERTY, PLANT AND EQUIPMENT

	December 31	
	1996	1995
Oil and natural gas properties, and production and processing equipment	$ 558,547	$ 457,036
Other	2,746	2,409
	561,293	459,445
Accumulated depletion and depreciation	(146,789)	(107,413)
Net book value	$ 414,504	$ 352,032

During the year ended December 31, 1996, $1,846,000 (1995 - $1,420,000) of overhead expenses were capitalized. The cost of unevaluated property excluded from the depletion base as at December 31, 1996, was $67,486,000 (1995 -$61,854,000).

4 BANK LOAN

	December 31	
	1996	1995
Bankers' acceptances	$ 134,880	$ 103,460
Libor advances (1995 - $41,000 U.S.)		55,928
	$ 134,880	$ 159,388

The Company has a long-term loan facility arranged with a syndicate of Canadian chartered banks which bears interest at the prime rate and is secured by floating charge debentures covering all assets. The maximum borrowing under the facility is $190,000,000, comprising a $175,000,000 production loan facility and a $15,000,000 operating loan facility. The facility is subject to an annual review by the lenders at which time a lender can request conversion to a term loan with repayment not to exceed 5 years. As at December 31, 1996, the Company has $8,000,000 of cheques issued in excess of cash on hand, included in accounts payable and outstanding letters of credit for $1,600,000, which would reduce the amount otherwise available to be drawn on the loan facility. Amounts drawn in U.S. dollars as at December 31, 1995 are translated into the Canadian dollar equivalent using the December 31, 1995 year end exchange rate of 1.3641.

5 CAPITAL STOCK

a) Authorized

i) Unlimited number of Preferred Shares issuable in one or more series.

ii) Unlimited number of Voting Common Shares without nominal or par value.

b) Issued

Common Shares	Number	Consideration
Balance, December 31, 1994	30,311,731	$ 111,543
Issued on acquisition of Northern Reef	3,994,404	21,895
Issued on exercise of stock options	412,360	1,706
Issued to employee stock savings plan	113,146	693
Balance, December 31, 1995	34,831,641	135,837
Issued for cash	**4,000,000**	**47,000**
Issued on exercise of stock options	**387,850**	**2,267**
Issued to employee stock savings plan	**63,540**	**663**
Share issue expenses, net of deferred income taxes of $892	**-**	**(1,107)**
Balance, December 31, 1996	**39,283,031**	**$ 184,660**

c) Stock options Options are issued to employees and directors and are exercisable on a cumulative basis at 20 percent per year for each of the first five years from the date of the grant. Changes during the year are summarized as follows:

	Number of Options	Exercise Price From	Exercise Price To
Balance, December 31, 1995	3,306,500	$ 2.25	$ 7.75
Granted	702,000	$ 6.95	$ 12.10
Exercised	(387,850)	$ 2.25	$ 7.15
Cancelled	(178,050)	$ 5.15	$ 8.80
Balance, December 31, 1996	**3,442,600**	**$ 2.25**	**$ 12.10**

6 INCOME TAXES

The provision for income taxes reflects an effective income tax rate that differs from combined federal and provincial statutory tax rates as follows:

Years ended December 31	1996	1995
Income before income taxes	$ 47,210	$ 24,634
Corporate income tax rate	44.6%	44.6%
Computed income tax provision	$ 21,056	$ 10,987
Increase (Decrease) resulting from:		
Non-deductible Crown payments, net	11,999	6,852
Non-deductible depletion	2,475	3,622
Resource allowance	(12,617)	(9,174)
Other	458	390
Deferred income taxes	$ 23,371	$ 12,677

7 NET INCOME PER SHARE

Net income per share information is computed by dividing the net income by the weighted average number of Common Shares outstanding during the year. The impact of potential dilution from stock options on net income per Common Share is not material.

Years ended December 31	1996	1995
Net income per Common Share	$ 0.66	$ 0.37
Weighted average number of Common Shares outstanding	35,879,831	32,227,130

8 FINANCIAL INSTRUMENTS

The carrying value of cash, accounts receivable, accounts payable and long-term debt approximate their fair value.

The Company uses various types of financial instruments to reduce its exposure to fluctuating oil and natural gas prices, foreign exchange rates and interest rates. The Company has the following contract positions outstanding:

As at December 31, 1996:

Exposure	Position Hedged	Pricing	Terms	Market Value of Contract @ Year-end Gain (Loss)
Oil				
WTI	1,000 bbls/day	$ 25.00 Can	Jan. 1, 1997- June 30, 1997	($1,400,410)
WTI	1,000 bbls/day	$ 19.17 U.S.	Jan.1, 1997- June 30, 1997	($926,090) U.S.
WTI	1,000 bbls/day	$ 30.55 Can	Jan.1, 1997 - Mar. 31, 1997	($304,730)
Foreign Exchange				
U.S. Dollar forward sale	$2,000,000 U.S./month	$1.3468	Jan.1, 1997 - Dec. 31, 1999	$847,730
U.S. Dollar forward sale	$600,000 U.S./month	$1.3480	Jan. 1, 1997 - June 30, 1997	($39,300)

9 RELATED PARTY TRANSACTIONS

The Company incurred $512,117 (1995 - $45,960) for underwriting fees, commissions and consulting services to a firm with directors who are directors of the Company.

FIVE YEAR SUMMARY

Years ended December 31

	1996	1995	1994	1993	1992
Financial					
($000s, except per share amounts)					
Gross revenues	173,773	129,068	89,538	20,123	6,967
Cash flow	90,051	62,989	41,483	9,445	1,338
Basic per share*	2.51	1.96	1.64	0.56	0.17
Fully diluted per share*	2.43	1.90	1.51	0.56	0.17
Net income (loss)	23,839	11,957	7,123	4,398	(1,544)
Per share*	0.66	0.37	0.28	0.26	(0.20)
Capital expenditures, net	101,848	131,938	216,714	39,902	826
Total assets	464,705	379,919	300,721	65,994	30,979
Long-term debt	134,880	159,388	126,021	24,800	12,100
Shareholders' equity	231,977	159,315	123,064	32,285	16,860
Common Shares outstanding (000s)*:					
Basic	39,283	34,831	30,312	17,876	13,974
Fully diluted	42,726	38,138	33,453	19,443	14,523
Market value per Common Share - High*	14.50	7.125	9.25	10.65	3.30
($/share) - Low*	6.75	4.85	4.50	2.60	0.35
- Close*	14.00	6.875	5.875	5.00	3.00
Operating					
Production					
Oil and liquids production (bbls/day)	11,483	10,577	6,934	1,753	550
Oil and liquids price ($/bbl)	21.80	19.86	19.27	18.39	18.22
Natural gas production (mmcf/day)	129.0	97.4	58.2	13.0	6.2
Natural gas price ($/mcf)	1.74	1.47	1.91	1.72	1.38
Reserves (proven and probable)					
Oil and liquids (mmbbls)	40.4	33.6	30.5	9.6	1.7
Natural gas (bcf)	515.0	481.5	328.7	108.6	39.1
Wells drilled (gross)					
Oil	63	16	9	5	3
Natural gas	42	42	39	5	2
Dry	16	8	9	4	-
	121	66	57	14	5
Undeveloped land holdings, western Canada					
(000s of acres)					
Gross	1,535	1,571	1027	388	127
Net	1,318	1,206	831	197	39
Average working interest (%)	86	77	81	51	31

* Per share amounts have been adjusted to reflect the consolidation of Common Shares on a five-for-one basis that occurred in June 1993.

Quarterly Financial Summary

Three months ended	1996 Mar 31	1996 Jun 30	1996 Sept 30	1996 Dec 31	1995 Mar 31	1995 Jun 30	1995 Sept 30	1995 Dec 31
Financial								
($000s, except per share amounts)								
Gross revenues	38,325	39,684	43,193	52,571	28,833	28,719	35,417	36,099
Cash flow	19,004	19,035	22,123	29,889	14,005	14,160	16,590	18,234
Basic per share	0.54	0.55	0.63	0.79	0.46	0.47	0.50	0.53
Fully diluted per share	0.52	0.53	0.61	0.77	0.42	0.47	0.48	0.53
Net income	4,270	3,661	5,601	10,307	2,040	2,371	3,679	3,867
Per share	0.12	0.11	0.16	0.27	0.07	0.08	0.11	0.11
Operating								
Oil and liquids production (bbls/day)	11,235	11,305	11,703	11,683	9,444	9,070	12,058	11,696
Oil and liquids price ($/bbl)	19.38	20.69	22.41	24.63	20.92	20.39	19.73	18.75
Natural gas production (mmcf/day)	119.0	129.9	133.2	134.0	83.5	85.1	107.2	113.3
Natural gas price ($/mcf)	1.71	1.56	1.55	2.12	1.47	1.54	1.37	1.53

Abbreviations

bbl	barrel (oil)
mmbbls	million barrels
bbls/day	barrels per day
boe	barrels of oil equivalent
mmboe	million barrels of oil equivalent
mmbtu	million British Thermal Units
mcf	thousand cubic feet (natural gas)
mmcf	million cubic feet
bcf	billion cubic feet
API	American Petroleum Institute
TSE	The Toronto Stock Exchange
NYMEX	New York Mercantile Exchange
AEUB	Alberta Energy and Utilities Board
WTI	West Texas Intermediate (benchmark crude for pricing)
TCGSL	TransCanada Gas Services Limited (benchmark intra-Alberta gas for pricing)

Unless otherwise stated, all financial sums are stated in Canadian dollars.

Conversions of Units

Imperial	Metric
1 ton	.907 tonnes
1.102 tons	1 tonne
1 acre	.40 hectares
2.5 acres	1 hectare
1 bbl	.159 cubic metres
6.29 bbls	1 cubic metre
1 mcf	28.2 cubic metres
.035 mcf	1 cubic metre
1 mile	1.61 kilometres
.62 miles	1 kilometre

CORPORATE INFORMATION

Directors

William E. Andrew
Calgary, Alberta

John A. Brussa
Calgary, Alberta

N. Murray Edwards
Calgary, Alberta

Nabih A. Faris
West Vancouver, B.C.

Thomas E. Phillips
Calgary, Alberta

Denis L. Russell
West Vancouver, B.C.

Officers

N. Murray Edwards
Chairman

William E. Andrew
President and Chief Operating Officer

Larry M. Jones
Vice President, Land &
Corporate Development

Donald J. Rae
Vice President, Exploration

Glenn A. Hamilton
Treasurer and Secretary

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Bennett Jones Verchere
Calgary, Alberta

Auditors

Arthur Andersen & Co.
Calgary, Alberta

Bankers

Canadian Imperial
Bank of Commerce
Credit Lyonnais Canada

Transfer Agent

R-M Trust Company
Calgary, Alberta

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